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RUEHDO/AMEMBASSY DOHA PRIORITY 0513
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RUEHTV/AMEMBASSY TEL AVIV PRIORITY 2216
RUEHDE/AMCONSUL DUBAI PRIORITY 0208
RUEHIT/AMCONSUL ISTANBUL PRIORITY 0362
RUEATRS/DEPT OF TREASURY WASHDC PRIORITY
RHEFDIA/DIA WASHDC PRIORITY
RUEAIIA/CIA WASHDC PRIORITY
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C O N F I D E N T I A L SECTION 01 OF 03 DAMASCUS 000727

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REF: A. DAMASCUS 55
¶B. DAMASCUS 240
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¶D. DAMASCUS 559

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Summary

¶1. (SBU) This is the first cable in a three-part series examining Iranian economic activity in Syria. Iranian-Syrian economic cooperation is overstated by both the SARG and Iranian government in an attempt to create the public perception that a mutually beneficial economic relationship has resulted from their political alliance. Reported non-military trade between the two countries in 2007 amounted to USD 157 million, just 33 percent of Syria's total USD 472 million in sanctions-compliant trade with the U.S. Although Syria has free trade agreements with Turkey and many of its Arab neighbors, the SARG has yet to ratify a free trade agreement with Iran. Many Syrians assume that Iran is providing Syria economic assistance in the form of crude oil, although local experts doubt that Iranian crude is destined for domestic Syrian consumption. In the experts' opinion, the most significant potential Syrian-Iranian petroleum trade is the 2007 Iranian agreement to sell Syria natural gas routed through Turkey. End summary.

Telling Trade Statistics

¶2. (SBU) The total annual volume of non-military trade between Syria and Iran has increased significantly since Bashar al-Asad assumed the Syrian Presidency, from USD 35

million in 2000 to USD 157 million in 2007. According to the SARG's Central Bureau of Statistics, Syrian exports to Iran increased from USD 1 million in 2000 to a peak of USD 40 million in 2007. Over the same period, Iranian exports to Syria jumped from USD 34 million in 2000 to USD 117 million in 2007.

¶3. (SBU) Syrian exports to Iran primarily include cotton, lamb meat, detergents, and olive oil. The majority of Iranian exports to Syria consist of pistachios, hydrocarbons, engines, industrial tools, auto parts and audio systems. In January 2008, the first Iranian Trade Fair was held at the Damascus Fair Grounds. Roughly 50 percent of the Iranian exhibits featured cars and automotive parts, with the remainder offering engineering services for agriculture/irrigation, power generation, petroleum and ports/marine infrastructure development.

¶4. (SBU) Contrary to regime rhetoric lauding the importance of the increased trade, Iran remains a relatively minor trading partner. By comparison, Syria's 2007 trade volume is substantially greater with Italy (USD 3.5 billion), France (USD 1.2 billion), China (USD 1.1 billion) and Turkey (USD 1.1 billion). Despite strained political relations with its Arab neighbors, Syrian trade with Saudi Arabia (USD 1.9 billion), Egypt (USD 1 billion), Lebanon (USD 600 million), and Jordan (USD 560 million) also far outweighs its trade with Iran.

¶5. (SBU) Perhaps most telling, the U.S. Commerce Department's Bureau of Census calculates the total volume of U.S.-Syrian trade in 2007 at USD 472 million -- three times Syrian-Iranian trade for the same year -- and at USD 548

million through August 2008. Significantly, the Commerce Department's figures estimate legal trade occurring in compliance with U.S. sanctions under the Syria Accountability and Lebanese Sovereignty Act, and given the ease of illegal transshipment actual trade volume is likely even higher. Given the constraints of sanctions, the majority of legal U.S.-Syrian trade consists of U.S. agricultural exports (ref A) and, to a lesser extent, American medicine and medical equipment.

¶6. (SBU) For the last eight years, Syria's trade with Iran was governed by an agreement dating from March 1996 that was ratified as Decree 241 in 1997. Since then, Syria ratified the Greater Arab Free Trade Agreement (GAFTA) in 2005 and a free trade agreement with Turkey in 2007. By contrast, Syrian and Iranian representatives signed a "preferential trade agreement" lowering tariffs on some goods in 2006, and the Syrian Parliament only ratified it in July 2008. Iran's President Ahmadinejad officially blessed the agreement in September 2008, which vaguely calls for strengthening economic ties and eventually transitioning to a free trade agreement. As recently as October 2008, DPM for Economic Affairs Abdallah Dardari told reporters that negotiations towards a free trade agreement with Iran are currently underway.

Petroleum Trade Less Clear

¶7. (C) SARG statistics on Syrian-Iranian trade are not categorized by sector and probably do not include the true value of petroleum trade. The Syrian business community widely assumes that Iran channels economic assistance to Syria in the form of crude oil, although details of such an arrangement are not publicly available. Petroleum magnate (and one of the few prominent Alawi businessmen) Nizar al-Assaad (protect) flatly denied to econoff that any Iranian crude was shipped to Syria to be refined for domestic consumption. A third-country national manager of a small petroleum company operating in Syria concurred with Assaad's

denial. If Tehran is currently shipping crude to Syria at concessionary prices, he explained, Syria is probably re-exporting it due to lack of domestic refining and storage capacity.

The Refinery of Evil

¶8. (SBU) In October 2007, Syrian Petroleum Minister Sufian Allaw returned from a visit to Tehran with two MOUs in hand. The first MOU confirmed Iranian participation in an oil refinery project originally proposed by Venezuelan President Hugo Chavez during an August 2007 visit to Syria. The project is advertised as a USD 2.6 billion joint venture between the national petroleum companies of Syria, Iran and Venezuela with the private Bukhari Group of Malaysia to construct a 140,000 bpd refinery in the Furoqlos region east of Homs. According to press reports, PDVSA (Venezuela) will own 33 percent of the project's shares, National Iranian Oil Refining and Distribution Company (NIORDC) and Bukhari Group will own 26 percent each, and Syrian Petroleum Company (SPC) will hold the remaining 15 percent stake in the company. The project calls for SPC to provide 70,000 bpd of the refinery's feedstock, with PDVSA contributing 42,000 bpd and NIORDC adding 28,000 bpd. Representatives of each of the four participants formally signed the venture's articles of incorporation in September 2008, although observers note the lack of specificity regarding the project's financing.

Iranian Gas

¶9. (C) In the second MOU, Iran agreed to sell Syria three million cubic meters per day (cm/d) of natural gas to be provided through an as-yet-unfinished pipeline network connecting Syria with Turkey. After three years, the Iranians promise to increase the gas production to nine million cm/d. On October 14, the official Syrian news agency SANA announced that the Russian Stroytransgaz had been awarded a USD 71 million contract to build a 38-mile (62 km) gas pipeline from Aleppo to the Turkish border over the next 18 months. (Note: While the SARG may spin this project as the final "link" in the "Arab Gas Line" project to export Egyptian gas to Europe, industry experts believe the pipeline's actual purpose will be to bring Iranian gas to the Syrian market. End note.)
CONNELLY